Nikkei Philippines Manufacturing PMI™

Steady manufacturing growth in September

Key points:

- New order growth solid despite export decline
- Supply chains under pressure, partly due to typhoon-related disruption
- Inflationary pressures remain marked

Data collected from September 12–21

Manufacturing conditions in the Philippines improved further at the end of the third quarter, with the latest PMI data continuing to signal robust demand and upbeat business confidence. Output growth picked up, while the rise in new orders remained solid. However, foreign demand faltered.

Employment gains were recorded again despite ongoing signs of spare capacity in the sector. On the price side, inflation remained strong, with a pickup in both input and output prices seen.

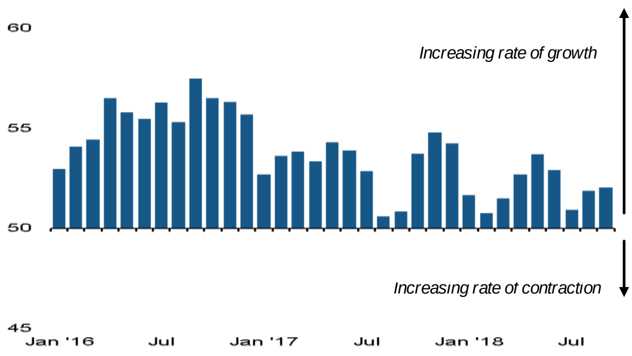
The seasonally adjusted **Nikkei Philippines Manufacturing Purchasing Managers' Index (PMI™)** rose from 51.9 in August to 52.0 in September, signalling another modest improvement in the health of the sector. This took the third quarter average to 51.6, suggesting that growth had moderated from the previous quarter.

Survey data indicated that client demand remained robust. Inflows of new business grew at a solid rate in September, despite a decline in export sales, suggesting that domestic markets took on a larger role in driving demand. Foreign orders fell slightly, following a six-month period of expansion. In response to higher sales, firms raised production further in September, although growth remained modest. Consequently, post-production stocks increased again at a solid rate.

Meanwhile, firms' operating capacity remained more than adequate to handle increased sales. In fact, backlogs of work fell further, with anecdotal evidence suggesting that higher productivity and efficient workflows had boosted capacity.

That said, a net gain in employment was recorded in September for a second straight month, with survey participants highlighting efforts to raise staff numbers to meet increased demand.

Nikkei Philippines Manufacturing PMI



Sources: Nikkei, IHS Markit

Firms continued to raise input purchases at the end of the third quarter, although the increase remained modest compared to the average seen over the first half of the year. Greater purchasing activity failed to increase stocks of purchases. On the contrary, input inventories fell for the first time since January 2016, albeit marginally. Longer delivery times were reported again in September, with survey evidence suggesting that typhoon-related disruptions were primarily responsible for the delays. Other factors such as port congestions and greater client demand also contributed.

Filipino goods producers continued to face strong cost increases as the third quarter concluded. Input price inflation remained steep, and well above the historical average. A combination of factors contributed to inflation, including a strong dollar, higher prices for raw materials (such as steel, electronic and electrical components, plastics, paper, sugar, and fuel), effects of the TRAIN laws and supply shortages. Firms, in turn, passed on higher costs to customers in order to preserve profit margins. Prices charged for Filipino manufactured products were raised at the second-highest rate in the survey history during September.

Finally, business confidence about output in the year ahead remained elevated, albeit slightly lower than in August.

Comment:

Commenting on the Philippines Manufacturing PMI survey data, **Bernard Aw, Principal Economist** at IHS Markit, which compiles the survey, said**:**

"The Philippines manufacturing economy likely grew at a slower pace in the third quarter, compared to the second quarter, according to the Nikkei PMI survey. However, September survey data suggest that growth in coming months is likely to be resilient, while strong cost inflation remains a key concern. In general, Filipino manufacturing firms are optimistic about the business outlook in the year ahead.

"The survey also brought further signs of firm demand. Order book growth remained solid, even though export sales fell for the first time in seven months, suggesting that domestic markets continued to support the sector's expansion.

"On the inflation front, another steep rise in input costs saw firms raising selling prices at the second-fastest rate in the survey history during September. However, inflation was partly driven by typhoon-related factors. That said, a weaker peso, supply shortages, higher global commodity prices and the TRAIN laws continued to drive inflation higher. As such, the latest PMI price gauges raised doubts about prospects that consumer inflation will reach a peak in September, suggesting instead that inflation could remain elevated in the months ahead."

-Ends-

Nikkei Philippines Manufacturing PMI™ is sponsored by NIKKEI

Nikkei is a media organization with newspaper publishing at its core. Our flagship daily newspaper, The Nikkei, has approximately two and a half million subscribers. Nikkei's multi-platform media distribution also includes online, broadcast and magazines.

Since our founding in 1876 as the Chugai Bukka Shimpo (Domestic and Foreign Prices News), we have consistently provided high-quality reporting while maintaining fairness and impartiality. The Nikkei brand has become synonymous with trustworthiness at home and abroad.

Nikkei Inc. offers a range of media platforms to satisfy the diverse needs of our readers. At the core of these services is The Nikkei which has a circulation of approximately two and a half million. Adding further depth to our offerings are our premium content and strong digital technology. The number of paying subscribers to the Nikkei Online Edition, which was launched in 2010, has surpassed 500,000. Our fee-based online services have one of the largest readerships in the world among newspaper publishers. Eight years after its creation, the online edition is set to evolve from a medium for providing news to readers into a tool that helps people advance their careers.

In 2013, we kicked off the Nikkei Asian Review, an English-language news service provided both online and as a weekly print magazine. The following year, we established an Editorial Headquarters for Asia in Bangkok to deepen our coverage of Asian economic news. In addition, we doubled the number of reporters stationed in Asia outside Japan. 2014 also saw the launch of Nikkei Group Asia Pte., a new company in Singapore tasked with spreading the Nikkei brand in the region. Our goal is to make Nikkei the leading media voice in Asia.

http://www.nikkei.co.jp/nikkeiinfo/en/

NIKKEI ASIAN REVIEW **http://asia.nikkei.com/**

INTRODUCING THE ONLY BUSINESS PUBLICATION THAT BRINGS YOU INSIGHTS ABOUT ASIA, FROM THE INSIDE OUT

With more reporters and contributors across the region than any other business publication, only Nikkei Asian Review can give you a view of business in Asia from the inside.

Stay abreast of the latest news, analysis and insights with a subscription to Nikkei Asian Review – available in print, online, and on your mobile and tablet device.

Asia300:
Providing extensive coverage of over 300 leading companies in 11 countries and regions in Asia. Nikkei Asian Review aims to build the largest hub for Asian corporate news through enhanced reporting backed by large database of business and financial information on companies in the region.

JAPAN UPDATE:
Keeping you up-to-date with business and news from Japan.

VIEWPOINTS:
Bringing views of leading minds on Asia from around the world, including our column "Tea Leaves" written by some of our best writers.

POLITICS & ECONOMY:
Looking at fiscal and monetary policy, international affairs and more

MARKETS:
Deep analysis if the markets, with detailed industry news to keep you abreast of some of the fastest growing sectors in the region.

Video:

Watch analysts explain our articles, catch interviews with top executives.

Print Edition:

Weekly delivery of the best content from Nikkei Asian Review to your home or office

For further information, please contact:

IHS Markit (About PMI and its comment)
Bernard Aw, Principal Economist
Telephone +65 6922-4226
Email bernard.aw@ihsmarkit.com

Jerrine Chia, Marketing and Communications
Telephone +65 6922-4239
E-mail jerrine.chia@ihsmarkit.com

Nikkei inc. (About Nikkei)
Ken Chiba, Deputy General Manager, Public Relations Office
Atsushi Kubota, Manager, Public Relations Office
Telephone 81-3-6256-7115
Email koho@nex.nikkei.co.jp

Notes to Editors:

The Nikkei Philippines Manufacturing *PMI*™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 industrial companies. The panel is stratified by GDP and company workforce size. The manufacturing sector is divided into the following 8 broad categories: Basic Metals, Chemicals & Plastics, Electrical & Optical, Food & Drink, Mechanical Engineering, Textiles & Clothing, Timber & Paper, Transport.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Nikkei Philippines Manufacturing *PMI*™ is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

About IHS Markit (www.ihsmarkit.com)

IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

About PMI
Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to https://ihsmarkit.com/products/pmi.html.